Saks in the city meets Dollarama:

Labour Market Inequality in Toronto seen through the lens of the retail divide

Whenever I present my findings on the working poor in the Toronto region[1], I always start with this riddle:

> '*What is the difference between downtown Toronto and Downton Abbey?*
> *Answer: At Downton Abbey, the working poor got to live there'*

In the City of Toronto, we are exporting the poor to places north of the east-west highway corridor called the 401. South of the east-west subway line, poverty is beginning to disappear.

But just because the working poor live further and further away from the centre of the city, it does not mean that they don't work and shop there. Poverty works in all areas of the city.

Toronto is the richest city in Canada accounting for almost 10% of the nation's GDP, clocking in at just less than $200 billion[2]. It is also the poorest. It has the highest child poverty rate in Canada at one in four children[3] and has the highest percentage of working poor individuals at 10.7% of the population[4].

Some people see this as being contradictory yet it is easily explained by the city's labour market. Toronto is rich in part because it has a high concentration of so called knowledge workers: 'sunshine listers', investment bankers, professionals of every type and highly paid technical staff. Knowledge workers not only comprise one of the two fastest growing segments of our labour force, they comprise the largest sector, about 550,000 strong.

But not far behind the knowledge workers is the 'service entry' sector that makes up the other fast growing part of the labour market in our city. In the chart below - Figure 8 from Metcalf's report on the working poor[5], another Metcalf fellow, Tom Zizys[6], devised a way to show what's been happening to Toronto's labour market over the last 25 years.

What it shows is that our very large and highly paid cadre of urban professionals requires a slightly smaller stock of coffee pourers, mall staff, food servers, child minders, dog walkers, grass cutters and office cleaners. With a minimum wage of $11.40 an hour ($20,000 net per year full time for a single person, most of the service entry workers live in poverty. The after tax low income measure (LIM) weighs in at about $22,000 for a single person.

The more knowledge workers you have, the more working poor you have – and Toronto leads the nation on both scores.

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[1] http://metcalffoundation.com/wp-content/uploads/2015/04/WorkingPoorToronto2015Final.pdf

[2] http://www1.toronto.ca/wps/portal/contentonly?vgnextoid=41e067b42d853410VgnVCM10000071d60f89RCRD&vgnextchannel=57a12cc817453410VgnVCM10000071d60f89RCRD

[3] https://www.thestar.com/news/gta/2015/10/13/toronto-holds-onto-its-shameful-title-child-poverty-capital-of-canada.html

[4] The Working poor in the Toronto Region: p11

[5] The Working poor in the Toronto Region: p29

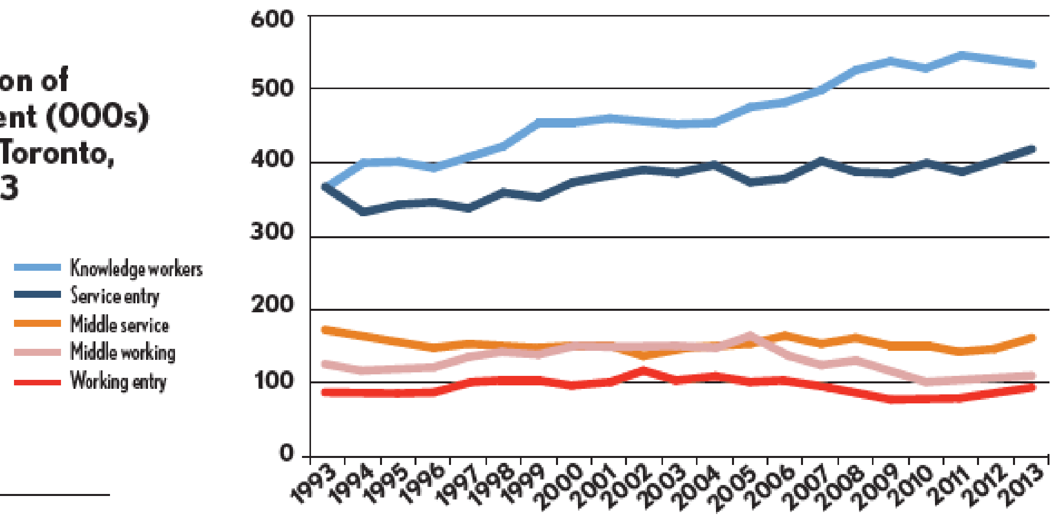
[6] http://metcalffoundation.com/stories/metcalf-stories/toronto-star-interviews-metcalf-fellow-tom-zizys-about-better-work/

Figure 8 also shows the flip side of a booming knowledge-service entry nexus and that is the stagnation of middle class and working class jobs in Toronto over the past two and a half decades.

But how does labour market inequality, runaway increases in knowledge workers, an upsurge in working poverty, and a declining middle show up in other areas?

FIGURE 8

Distribution of employment (000s) in City of Toronto, 1993-2013



One place is retail.

Let's start at the top where the best-heeled of the knowledge workers go: Saks and Nordstrom.

When Saks Fifth Avenue moved into Toronto in February 2016, The Toronto Star quoted Mark Metrick, its President[7]:

> *"We're in this for the long haul and this is the right thing to do. We're very excited about planting our flag in this market – I mean the Saks flag – and creating a leadership position."*
>
> *"I used to say: There's got to be a Saks here. I felt it was time for Saks"*

Retail Insider covered the Nordstrom entry[8]:

> *"Upscale Seattle-based retailer Nordstrom has revealed the opening dates for its first two Toronto stores both scheduled to open in the fall of 2016. A third Toronto location will open the following year."*

[7] https://www.thestar.com/business/2015/11/17/saks-fifth-avenue-to-open-two-gta-stores.html

[8] http://www.retail-insider.com/retail-insider/2015/10/nordstrom-toronto

And not to be outdone in its quest to serve the half million plus high earners in Toronto, Tiffany's also made a long term commitment to Toronto's high earners. Retail Insider noted[9]:

> *"Tiffany & Co's new Toronto flagship store is now open. … The new store features more useable space as well as a more open, modern interior. It is the largest Tiffany & Co. store in Canada, and one of the highest-selling in North America.*
>
> *Tiffany is located next door to a flagship Louis Vuitton Maison, which opened last year. The Vuitton Maison is also the largest in Canada."*

So the 'high end' is on fire in Toronto. Let's look at the low end.

Unsurprisingly, the low end is also booming. After all, where are all the service entry workers with their poverty level salaries going to shop? You guessed it: Dollarama. This is one company that is doing very well in Canada's capital of working poverty where there are ten 'dollar type' stores in the richest areas of mid-town Toronto[10]:

As the CBC noted back in April 2016:

> *"Dollarama is boosting its quarterly dividend after the discount retailer crushed analyst expectations by producing record fourth-quarter profits that soared more than 50 per cent.*
>
> *Derek Dley of Canaccord Genuity welcomed the strong results and recommended that investors switch out of Tim Hortons to Dollarama, his top growth retail pick."*

The stock performance of Dollarama over the past 5 years has been nothing short of meteoric with a rise from about $25 a share to over $100 a share in December 2016[11].

And finally let's talk about the middle. It's turned into a wasteland because an anemic demographic cannot support what it's selling. Think of Target. Think of the Future Shop. Think of Sears. Here are some choice references starting with a brutally honest assessment from the head of Sears Canada[12]:

> *"We aren't going anywhere," Ronald Boire, who was named acting chief executive of Sears Canada last month, said in a media report on Monday.*
>
> *The network of 347 department stores, which has shrunk as Sears has vacated several high-profile locations in recent years, lost $118 million over the stretch.'*

Future Shop, another middle class store shut down all its stores[13]:

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[9] http://www.retail-insider.com/retail-insider/tail-insider.com/2013/09/tiffanys-new-toronto-flagship-is-now.html
[10] https://www.yelp.ca/search?cflt=discountstore&find_loc=Downtown+Core%2C+Toronto%2C+ON
[11] http://www.marketwatch.com/investing/Stock/DOL?countrycode=CA
[12] http://globalnews.ca/news/1677973/losses-mount-at-iconic-department-store-sears-canada/
[13] http://www.cbc.ca/news/business/future-shop-closures-reflect-changing-face-of-canadian-retail-1.3015266

"Future Shop and other stores abandoning malls in Canada are signs of a retail sector being reinvented on the fly, analysts say.

Future Shop shut down 66 of its stores over the weekend and is converting the other 65 to Best Buy outlets. It's only the latest in a series of closures in Canada that have included U.S. retail giant Target."

For some reading this short essay, the answer will be that on-line retailing from giants like Amazon is making huge inroads into the businesses of the middle and working class stores.

And that may be true.

But it does not explain why people are flocking to the bricks and mortar of Saks and Dollarama. If the on-line story is the answer, why are high end and low end retailers seemingly not affected?

KPMG[14] has the story right but does not provide the labour market reality behind the retail divide:

"The luxury market remains a good place to be at a time when people are buying high and low, leaving the middle market to struggle, said Andrea Baldwin, a partner and management consultant at KPMG.

"The middle guys are having a hard time. People are trading up and buying luxury or trading down and buying discount. In Canada it's very competitive now."

But the retail pundits don't seem to know about the information in Tom Zisys' Figure 8 when everything they say concerns the changing nature of the business environment while failing to mention even a word about labour market change or working poverty.

When I was a kid in east end Toronto, everybody seemed to shop at the same stores: Simpson's, Eaton's, The Bay, Towers, Zellers, and Canadian Tire. The retail divide existed but not to the same extent that it does today. So it's interesting to hear that success comes to those that aim high or low but not for the middle. Maybe it's because Costco, Walmart and Canadian Tire have fended off all the would-be invaders.

But the retail divide provides observers of inequality a new litmus test - a canary down the mineshaft - to judge how our labour markets are faring. We can only hope that it won't become even more pronounced in the decades ahead. We can hope for a decent living wage in Toronto along with higher wages for the makers of the goods that flow so cheaply into our country.

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[14] https://www.thestar.com/business/2015/11/17/saks-fifth-avenue-to-open-two-gta-stores.html